

## **Ishrat Husain: Unleashing entrepreneurship**

Chief guest address by Mr Ishrat Husain, Governor of the State Bank of Pakistan, at the launching of UN Secretary General's Report on Unleashing entrepreneurship, Karachi, 28 December 2004.

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I wish to commend the FPCCI and UNDP for launching the Report of the Commission appointed by the Secretary General on Unleashing entrepreneurship. The Commission had learned scholars and practitioners such as Prof. C. K. Prahalad and Mr. Hernando de Soto as members for whose views on poverty alleviation are highly refreshing and I have great respect for them. The Report reflects their views and hence the Report is not only useful but practicable.

The Commission has made an extremely important contribution to the debate on how to harness the energies and entrepreneurs of the private firms, farmers, businesses - big or small, corporate or individual - for the larger benefit of the majority of the poor. It is also gratifying to note that the fear about the power and domination of multinational corporations and private businesses that has become a rallying point for anti-globalization forces has given way to a more balanced and sobering analysis of the role of private sector and private-public partnership in the Report. The rhetoric against liberalization of trade has been replaced in the Report by the consensus view that open markets support economic growth.

The Commission has rightly distilled the lessons of last five decades' experience of development. It argues that favorable global and domestic macro environment, physical and social infrastructure and rule of law are the foundations for the private sector. And a level playing field, access to financing, access to skills and knowledge are the pillars of entrepreneurship.

If I examine the findings of this Report in light of what we have tried to do in Pakistan during the last five years we can proudly claim that we have made strides in fostering and ensuring a stable domestic macroeconomic environment, taken initiative in building physical and social infrastructure, and made serious endeavors to ensure a level playing field for all economic players whether large or small, domestic or foreign. We have, however, not been able to make much headway so far in our quest for achieving rule of law across the board particularly for the poor in our country who still face enormous difficulties. We have also remained slack in skills and knowledge development. There is a mismatch between the skills required by the economy and the skills produced by our educational institutions. We are way behind other developing countries in these two aspects.

One of the most gratifying aspects of our reforms in the financial sector during the last five years has been broadening access to financing by the middle and lower income groups. The banking sector which dominates our financial system (it controls more than 90 per cent of financial assets) had traditionally catered to the needs of the Government for meeting their deficit financing, or to the large and well established corporate sector and also financed international trade. Through the reforms undertaken in last 5 years we have tried to open up the financial sector by promoting and encouraging non-bank financing companies which through leasing, modarabas, mutual funds etc. can reach out to new type of borrowers and savers. As most of the poor derive their livelihoods from agriculture, SMEs or have no tangible assets, the State Bank of Pakistan is facilitating flow of agriculture credit, SME loaning and microfinance to help them. Four years ago, ZTBL was the only major provider of credit to agriculture. Today, the commercial banks have overtaken ZTBL as the main sources of agriculture credit. During this period the volume of credit to agriculture particularly small and subsistence farmers has almost tripled and this year we hope to cross Rs. 85 billion. Similarly, from a modest start the outstanding loans for SMEs now account for 18 to 19 per cent of all private sector loans. Khushali Bank, Pakistan Poverty Alleviation fund and other microfinance institutions and NGOs are now serving about half a million poor mostly the women in rural areas.

Our aim is that 50 per cent of our agricultural households should be able to obtain bank credit in the next five years while we plan that microfinance institutions should reach 3 million borrowers from the current level of half a million borrowers. In small and medium enterprises the banks' efforts will be focused on financing at least two million enterprises throughout the country. Interestingly, the banks find it profitable to lend for microfinance, SMEs and agriculture as their target group is small holders, small businesses and the poor particularly the women. Their track record in loan recovery is far superior to that of the large business houses and large farmers. The default rate was 25 per cent when the banking system in Pakistan was serving the traditional target group of corporates and large

holders. Today, the default rate is less than 5 per cent when the banks are gradually shifting their lending to the underserved sectors, underprivileged households and undercapitalized enterprises. The experience with the banking sector reforms in Pakistan has therefore exploded the myth that the formal finance can only be made available to the organized firms and well-to-do families and individuals. The conventional wisdom that the banks will lose money if they broaden their access to rural population or small enterprises does not hold any grounds looking at the results achieved by the banks in the last few years.

For the middle class who form the backbone of any economy, we have allowed the commercial banks to offer mortgage financing, auto financing, consumer financing and Islamic banking. There has been an impressive response to these products. Most of the autos are now purchased through bank or lease financing. The banks have attracted million or so new customers from the middle and lower income groups who have availed of financing in these new areas.

I fully endorse the view of the learned authors of the report that large incumbent companies in developing countries can stifle entrepreneurial energy and initiative but a dynamic financial sector, in which new entrants and incumbents can get finance under competitive terms, can create competitive pressures in the market. This is exactly what Pakistan is trying to do. We have done away with effectively subsidizing large private sector firms which were selling low quality products at high prices under a regime of controls. We have allowed liberal entry and sale of imported goods and inputs and also removed high tariffs and quotas so that small firms can also produce goods domestically at low prices.

Least that I am misunderstood that we have reached nirvana I wish to make it clear that we have just made a modest beginning in this journey towards reaching out to the poor and the middle class. The journey is long, tortuous and the road ahead is full of stones and boulders. We have to work hard to remove these impediments on our way and continue marching towards our destination without getting fatigued.

I hope the recommendations of the report will not only be disseminated widely but also acted upon faithfully.